

## **EXHIBIT 52**

NO. 171-A | JUNE 1999

# Governmental Accounting Standards Series

Statement No. 34 of the  
Governmental Accounting  
Standards Board

Basic Financial Statements—  
and Management's Discussion  
and Analysis—for State and  
Local Governments



**GOVERNMENTAL ACCOUNTING STANDARDS BOARD**  
OF THE FINANCIAL ACCOUNTING FOUNDATION

#### **Internal activities—statement of activities**

59. Eliminations should be made in the statement of activities to remove the “doubling-up” effect of internal service fund activity. The effect of similar internal events (such as allocations of accounting staff salaries) *that are, in effect, allocations of overhead expenses* from one function to another or within the same function also should be eliminated, so that the allocated expenses are reported only by the function to which they were allocated.

60. The effect of interfund services provided and used (see paragraph 112) between functions—for example, the sale of water or electricity from a utility to the general government—should not be eliminated in the statement of activities. To do so would misstate both the expenses of the purchasing function and the program revenues of the selling function.

#### **Intra-entity activity**

61. Resource flows between the primary government and *blended* component units should be reclassified in accordance with the provisions of paragraph 112 as internal activity in the financial statements of the reporting entity. Resource flows (except those that affect the balance sheet only, such as loans and repayments) between a primary government and its discretely presented component units should be reported as if they were external transactions—that is, as revenues and expenses. However, amounts payable and receivable between the primary government and its discretely presented component units or between those components should be reported on a separate line.

#### **Reporting Internal Service Fund Balances**

62. Internal service fund asset and liability balances that are not eliminated in the statement of net assets should normally be reported in the *governmental* activities column. Although internal service funds are reported as proprietary funds, the activities accounted for in them (the financing of goods and services for other funds of the government) are usually more governmental than business-type in nature. If enterprise funds are the predominant or only participants in an internal service fund, however, the government should report that internal service fund's residual assets and liabilities within the business-type activities column in the statement of net assets.

## **Fund Financial Statements**

### **Funds—Overview and Definitions**

63. Fund financial statements should be used to report additional and detailed information about the primary government. Governments should report governmental, proprietary, and fiduciary funds to the extent that they have activities that meet the criteria for using those funds. (See paragraphs 64–73.)

- a. Governmental funds (emphasizing major funds)
  - (1) The general fund
  - (2) Special revenue funds
  - (3) Capital projects funds
  - (4) Debt service funds
  - (5) Permanent funds
- b. Proprietary funds
  - (6) Enterprise funds (emphasizing major funds)
  - (7) Internal service funds
- c. Fiduciary funds and similar component units
  - (8) Pension (and other employee benefit) trust funds
  - (9) Investment trust funds
  - (10) Private-purpose trust funds
  - (11) Agency funds.

### **Governmental Funds**

64. Governmental fund reporting focuses primarily on the sources, uses, and balances of current financial resources and often has a budgetary orientation. The governmental fund category includes the general fund, special revenue funds, capital projects funds, debt service funds, and permanent funds. With the exception of permanent funds, those governmental funds are defined in NCGA Statement 1, as amended.

65. *Permanent funds* should be used to report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government's programs—that is, for the benefit of the government or its citizenry.<sup>32</sup> (Permanent funds do not include *private-purpose*

---

<sup>32</sup>An example is a cemetery perpetual-care fund, which provides resources for the ongoing maintenance of a public cemetery.

*trust funds*, defined in paragraph 72, which should be used to report situations in which the government is required to use the principal or earnings for the benefit of *individuals, private organizations, or other governments.*)

### **Proprietary Funds**

66. Proprietary fund reporting focuses on the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. The proprietary fund category includes enterprise and internal service funds.

67. *Enterprise funds* may be used to report any activity for which a fee is charged to external users for goods or services. Activities are *required* to be reported as enterprise funds if any one of the following criteria is met. Governments should apply each of these criteria in the context of the activity's *principal revenue sources*.<sup>33</sup>

- a. The activity is financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity. Debt that is secured by a pledge of net revenues from fees and charges *and* the full faith and credit of a related primary government or component unit—even if that government is not expected to make any payments—is not payable solely from fees and charges of the activity. (Some debt may be secured, in part, by a portion of its own proceeds but should be considered as payable “solely” from the revenues of the activity.)
- b. Laws or regulations require that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues.<sup>34</sup>

---

<sup>33</sup>These criteria do not require insignificant activities of governments to be reported as enterprise funds. For example, state law may require a county's small claims court to assess plaintiffs a fee to cover the cost of frivolous claims. However, taxes, not fees, are the principal revenue source of the county's court system, and the fees in question cover only the cost of frivolous small claims court cases. In this case, the county would not be required to remove its court system or the small claims court activity from its general fund and report it in an enterprise fund. Conversely, a state department of environmental protection regulation may require a water utility to recover the costs of operating its water plant, including debt service costs, through charges to its customers—the utility's principal revenue source. Because these charges are the activity's principal revenue source and because the water utility is required to recover its costs, the utility should be reported as an enterprise fund.

<sup>34</sup>Based on this criterion, state unemployment compensation funds should be reported in enterprise funds.